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RHMFISS/COMUSKOREA SCJS SEOUL KOR PRIORITY  
RUEKJCS/SECDEF WASHINGTON DC//OSD/ISA/EAP// PRIORITY  
RUEHIN/AIT TAIPEI PRIORITY 2714  
RHEHNSC/NSC WASHINGTON DC PRIORITY  
RHMFISS/COMUSKOREA CC SEOUL KOR PRIORITY  
RHMFISS/COMUSKOREA J5 SEOUL KOR PRIORITY  
RHMFISS/COMUSKOREA J3 SEOUL KOR PRIORITY  
RUACAAA/COMUSKOREA INTEL SEOUL KOR PRIORITY

C O N F I D E N T I A L SEOUL 001107

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SUBJECT: THE 2009 ROK DEFENSE BUDGET IMPLICATIONS FOR  
DEFENSE REFORM

REF: A. A. SEOUL 4328  
[1](#)B. B. 2007 SEOUL 23

Classified By: A/POL Brian D. McFeeters, Reasons 1.4 (b,d).

[1](#)1. (C) Summary. The Won 621 trillion (about USD 620 billion) plan to transform the South Korean defense establishment inked in 2005 is under intense pressure from President Lee Myung-bak,s austerity measures. Just as President Lee is trimming all spending, the economic forecasts completed in 2005 that supported robust defense spending are proving to be far too optimistic. These fiscal pressures have already resulted in Ministry of National Defense (MND) proposals to cut the defense budget 10 percent and plans to reevaluate and modify the ROKG,s ambitious Defense Reform Plan (DRP) 2020 just adopted in 2005. The ultimate impact on the FY 2009 defense budget and the DRP remains to be seen, with estimates ranging from inconsequential to significant, but the political debate about defense spending priorities, particularly as it relates to acquisitions to prepare the ROK military to assume wartime operational control (OPCON) as planned in 2012, is sure to reshape the priorities of the defense budget for the remainder of Lee,s administration. End summary.

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OPCON, OPCON, and Did I Mention OPCON?  
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[1](#)2. (C) The importance of the wartime operational control (OPCON) to conservative elements within Korea cannot be understated. In two recent panel discussions with experts from the Korean Institute for Defense Analysis (KIDA) and the Korean National Defense University (NDU), Korean academics expressed nearly unanimous support for what they characterized as National Security Advisor Kim Byung-kook's opposition to OPCON transfer in 2012. In the minds of these researchers, although the military-to-military process to implement OPCON transfer continues apace, the political decision is far from settled. The conservative argument has been made through recent press articles as well, which claims LMB National Security Advisor Kim Byung-kook's opposition to acquiring some of the most transformative defense systems, such as Global Hawk (GH), with an eye toward undermining the previous Rho Moo-hyun,s government,s agreement to transfer wartime OPCON in 2012.

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DRP 2020 Review Underway

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¶3. (C) The fate of OPCON and DRP 2020 depends on who you ask. According to Korean acquisition officials, MND and its Defense Acquisition Program Administration (DAPA) plan to continue pursuing transformative, big ticket defense programs as outlined in DRP 2020. DAPA Director General of International Contracts Yoon Chang-oak informed poloff that negotiations between DAPA and the National Intelligence Service (NIS) were ongoing to provide joint financing of GH in order to move some of the cost out of the MND budget. Given its symbolic importance and high cost, GH may prove to be a bellwether for the struggle between the pro-OPCON and anti-OPCON transfer advocates. According to Yoon, the 2009 MND budget submission is expected to be complete by the end of June 2008.

¶4. (C) DRP 2020 is in the midst of its first scheduled review. DAPA Director General of International Contracts Yoon predicted the end date of DRP would simply slip from 2020 to 2025 or beyond. He indicated the MND does not currently plan to change any of the specific DRP 2020 goals that are designed to turn the manpower-oriented force into an intelligence and knowledge-oriented force structure by eliminating 180,000 soldiers (30 percent) and adding C2-ISR, mobility, and precision strike capabilities (ref B). DRP 2020 documents emphasize that, philosophically, the plan shifts the military from a peninsular focus to a regional deterrent force able to contribute more broadly to East Asian stability.

¶5. (C) Many of the economic assumptions enabling DRP 2020 are proving to be too optimistic. DRP 2020 called for an annual defense spending increase of 9.9 percent for the first five years. This increase, predicated on rapid GDP growth, capped defense spending at just under 3 percent of GDP. However, GDP growth rates, only 4.9 percent in 2007 for example, will likely fall short of the plan's expected growth rates of over 7 percent per year. Recent Bank of Korea estimates predict ROK GDP will remain approximately 4.7 percent for the rest of the decade. At this growth rate, the required annual defense budget increases under DRP 2020 would drive the ROK defense budget to 3.7 percent of GDP by 2014, far more than initially anticipated, and perhaps more than the ROKG is willing to bear.

¶6. (C) Compounding the expected cost of the original DRP 2020, Hwang Jin-ha, GNP assemblyman opposed to OPCON transfer, commissioned a RAND study that concluded there will be no dividend from reducing the number of military personnel by 30 percent. The savings from eliminating 220,000 conscripts is less than the cost of adding 17,900 non-commissioned officers (NCO) and 20,000 contract re-enlistees, according to the study. This will shift the force from 75 percent conscripts to 58 percent, and increase far more expensive NCO and officer positions from 25 percent to 42 percent, adding considerably to overall personnel costs.

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FY 2009 Defense Budget  
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¶7. Estimates from various sources within DAPA and MND policy sections indicate that the 2009 budget will increase about 7 to 8 percent over the 2008 budget. This increase, especially dramatic given President Lee Myun-bak,s much ballyhooed demand for a 10 percent reduction in total government outlays, is likely to invite factional debates over the goals of defense modernization. KIDA Senior Research Fellow Kim Taewoo predicted that resistance to increased defense spending would come from President Lee's non-defense related cabinet officers as well as from his national security staff. He predicted that those opposed to OPCON transfer will use the need for budget cuts as a convenient and attractive argument for delaying progress towards OPCON-enabling capabilities such as C2-ISR.

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COMMENT

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18. (C) Bottom line: It appears that the ROK Defense Budget will increase by approximately 7 percent next year. Ultimately, however, the fate of the DRP 2020 and the 2009 MND budget is likely to hinge on the power struggle defined by the single issue of OPCON transfer. Those resistant to un-tethering U.S. leadership from the current Combined Forces Command structure to a ROK-military led command structure have exerted their influence within the Blue House. Led by NSA Kim Byung-kook, they have couched their argument in terms that LMB cares about--how much it will cost and how it will affect the Korean defense budget,s bottom line. While the two defense ministers agreed in February 2007 on a 2012 OPCON transfer, and our two militaries continue to implement a joint OPCON Strategic Transition Plan, it is clear that the political debate within Korea continues.

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